

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2007-286-W/S

SC PUBLIC SERVICE
COMMISSION

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IN RE:

Application of Utilities Services of
South Carolina, Inc. for adjustment of
rates and charges and modifications to
certain terms and conditions for the
provision of water and sewer service.

DIRECT TESTIMONY
OF
LENA GEORGIEV

**Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS
FOR THE RECORD.**

A. My name is Lena Georgiev. I am employed as a Senior Regulatory Accountant at
Utilities, Inc., 2335 Sanders Road, Northbrook, Illinois 60062.

Q. WHAT IS YOUR PROFESSIONAL BACKGROUND?

A. I have been employed by Utilities, Inc. ("UI") since January of 2006. Since that
time I have been involved in several phases of rate-making in many regulatory
jurisdictions. I graduated from University of Illinois at Chicago in 2000, and I am a
Certified Public Accountant. I had four years of public accounting/auditing experience
prior to joining UI, am a member of the American Institute of Certified Public
Accountants and have successfully completed the utility regulation seminar sponsored by
NARUC.

Q. PLEASE EXPLAIN YOUR JOB RESPONSIBILITIES AT UI.

1 **A.** My responsibilities include: financial analysis of individual subsidiaries of UI,
2 preparation of rate applications, facilitation of regulatory audits, and the submission of
3 testimony and exhibits to support rate applications.

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

5 **A.** The purpose of my testimony is to sponsor the application of Utilities Services of
6 South Carolina, Inc., or “USSC,” for an increase in its rates for water and sewer services
7 provided in its service area in South Carolina, which was filed with the Commission on
8 August 6, 2007 (“Application”).

9 **Q. PLEASE DESCRIBE USSC.**

10 **A.** USSC is a wholly owned subsidiary of UI and was incorporated on April 1, 2002
11 for the purpose of owning and operating water and wastewater utility systems in South
12 Carolina. As of December 31, 2006, USSC serves 6,854 water and 376 sewer customers.
13 USSC maintains an operations and customer service office in West Columbia, South
14 Carolina. Customer payments, meter readings and service orders are processed from this
15 office. Administrative functions such as regulatory services, management, accounting,
16 human resources and data processing are performed from the UI office in Northbrook,
17 Illinois.

18 **Q. PLEASE DESCRIBE UI.**

19 **A.** UI is unique within the water and sewer industry in many respects. From its
20 inception almost 40 years ago, UI has concentrated on the purchase, formation and
21 expansion of smaller water and/or sewer utility systems. Often, these types of systems
22 have experienced operational or financial difficulties or a combination of both. At the

1 present time, UI has over 90 systems that provide service to approximately 300,000
2 customers in 17 states.

3 **Q. DO USSC CUSTOMERS BENEFIT FROM THE COMPANY'S AFFILIATION**
4 **WITH UI?**

5 **A.** Yes. The affiliation with UI has many benefits for USSC customers. One of the
6 primary benefits is USSC's access to a large pool of human resources from which to
7 draw upon. There are experts in various critical areas, such as construction, engineering
8 operations, accounting, data processing, billing, regulation, customer service, etc. This
9 combined expertise and level of experience is not available in a more cost effective
10 manner elsewhere.

11 Given UI's focus on water and sewer systems, its personnel have the ability to
12 meet the challenges of this rapidly changing industry. Because of this focus, our
13 companies enjoy some unique advantages, one of which is that capital is available for
14 improvements and expansion at a reasonable cost. With increasingly more stringent
15 health and environmental standards, ready access to capital will prove vital to continued
16 quality service in the water and sewer utility business.

17 In addition, the UI group of companies has national purchasing power that results
18 in lower costs to rate payers. Expenditures for insurance, vehicles, chemicals and meters
19 are a few examples of purchases where national contracts provide tangible benefits to
20 rate-payers.

21 **Q. WHY IS USSC REQUESTING RATE RELIEF AT THIS TIME?**

22 **A.** Under present rates, USSC is not able to meet its operating costs and earn a
23 reasonable return on its investment in the USSC system. It has been over two (2) years

1 since the Company last applied for rate relief. As reflected in its application for the test
2 year ended December 31, 2006, USSC's return on its rate base was 1.59% and the
3 corresponding return on equity is (5.88%). This return on equity is well below the
4 Company's cost of equity which, as the Commission will hear from the Company's
5 witness Ms. Ahern, is 11.40-12.00%. In addition, as time passes, the need for rate relief
6 will only increase. Without satisfactory rate relief, USSC's ability to continue to provide
7 safe, reliable and efficient water and sewer utility services to its customers will be placed
8 in jeopardy, and USSC will be unable to meet its financial obligations. In addition,
9 capital will become more costly.

10 **Q. PLEASE DESCRIBE THE COMPANY'S APPLICATION.**

11 **A.** In addition to the proposed rate schedule, the Application contains financial
12 statements consisting of a balance sheet, income statements, rate base and rate of return
13 calculation, a test year revenue calculation under current rates, a revenue calculation
14 under proposed rates, and a schedule of current and projected customers. Also included
15 are the most recent approval letters from DHEC and a sample customer bill form.

16 **Q. THE APPLICATION ALSO SEEKS APPROVAL FOR A MODIFICATION FOR**
17 **CERTAIN TERMS AND CONDITIONS OF PROVIDING THESE SERVICES,**
18 **DOES IT NOT?**

19 **A.** Yes, but Mr. Haas will present testimony supporting the Company's request in
20 that regard.

21 **Q. WOULD YOU PLEASE SUMMARIZE THE PROPOSED RATE CHANGES IN**
22 **THE COMPANY'S WATER RATE SCHEDULE?**

A. Exhibit A of the Application contains the Company's Schedule of Proposed Water Rates and Charges. The Company has proposed to increase all basic facilities charges for water customers as follows:

	Meter Size	Present	Proposed
Residential	5/8"	\$ 14.39	\$ 21.51
Commercial	1"	\$ 35.98	\$ 53.79
	1.5"	\$ 71.97	\$ 107.60
	2"	\$ 115.15	\$ 172.16
	3"	\$ 230.30	\$ 344.32
	4"	\$ 359.84	\$ 538.00

The Company has proposed to increase the commodity charge applicable to both residential and commercial customers from \$3.91 per 1,000 gallons or 134 cubic feet ("cft") to \$5.83 per 1,000 gallons or 134 cft. Additionally, USSC has proposed to increase the commodity charge for distribution only customers, both residential and commercial, from \$2.24 per 1,000 gallons or 134 cft to \$3.34 per 1,000 gallons or 134 cft. Bulk charges assessed by governmental suppliers would continue to be passed through to distribution only customers in accordance with existing rate schedule language.

Q. WOULD YOU PLEASE SUMMARIZE THE PROPOSED RATE CHANGES IN THE COMPANY'S SEWER RATE SCHEDULE?

Exhibit A of the Application contains the Company's Schedule of Proposed Sewer Rates and Charges. USSC proposes to increase the residential wastewater customer's charge from the current monthly charge of \$41.39 to \$46.11 per month. Mobile home customers' monthly rates would increase from \$29.74 to \$33.13. Commercial customers would pay \$46.11 per single family equivalent per month. A

1 collection only customer would pay \$29.68 with bulk charges assessed by governmental
2 suppliers continuing to be passed through in accordance with existing rate schedule
3 provisions.

4 **Q. WERE THE FINANCIAL SCHEDULES ATTACHED TO THE APPLICATION**
5 **PREPARED BY YOU OR UNDER YOUR DIRECTION?**

6 **A.** Yes, the schedules attached to the General Rate Case Application were prepared
7 under my direction and are attached as Exhibit B to the application.

8 **Q. PLEASE DESCRIBE THESE SCHEDULES.**

9 **A.** The Financial Statements and related schedules submitted with the application
10 consist of a Balance Sheet, Income Statement, Rate Base and Rate of Return,
11 Consumption Analysis under Present rates and Consumption Analysis under Proposed
12 rates. The test year chosen is the year ended December 31, 2006 which was the most
13 recent twelve-month period available at the time of the Company's filing.

14 Schedule A is the Balance Sheet as of December 31, 2006. At the end of the test
15 year, USSC had assets of approximately \$11,100,000. This includes almost \$9,200,000
16 of Net Utility Plant.

17 Schedule B is the income statement for the test year and is comprised of four
18 pages. Page 1 is the income statement for combined operations; page 2 is the income
19 statement for water operations; page 3 is the income statement for sewer operations; and
20 page 4 is a list of brief explanations for the pro forma adjustments made to the various
21 income statements. With the pro forma adjustments proposed in Schedule B and in my
22 testimony, the Company's operating expenses have increased over \$600,000 or about

1 29%, since its last rate case. The increase in expenses contributes to the Company's need
2 for rate relief.

3 Schedule C is the rate base and rate of return schedule at current and proposed
4 rates based upon the per books and adjusted income and expense data and is comprised of
5 four pages. Page 1 is the rate base and rate of return statement for combined operations;
6 page 2 is the rate base and rate of return statement for water operations; and page 3 is the
7 rate base and rate of return statement for sewer operations. Pages 2 and 3 are
8 supplemented by pages 2A and 3A consisting of schedules of plant by categories.

9 Schedule D is the Consumption Analysis under Present rates, Schedule E is the
10 calculation of revenues under Proposed Rates, and Schedule F demonstrates USSC's
11 current and projected customers.

12 **Q. WOULD YOU PLEASE PROVIDE A BRIEF EXPLANATION OF THE PRO**
13 **FORMA ADJUSTMENTS INCLUDED ON SCHEDULE B?**

14 **A.** Uncollectible accounts were adjusted based on the proposed increase in revenues
15 and water and wastewater revenues have been adjusted to tie to test year consumption
16 data at test year rates. Revenues have been annualized at present and proposed rates
17 using the actual number of customers during the test year. Operator and Office salaries
18 were annualized as of December 31, 2006 and have been adjusted to reflect a 3.5% raise
19 increase. Pension & Other Benefits were annualized to match end of test year salaries and
20 wages. Regulatory Commission Expense has been adjusted to reflect the cost of the
21 current proceeding over a two year period. Depreciation and amortization expense was
22 adjusted to reflect the annualized depreciation expense on end of test year plant as well as
23 pro forma additions to plant. Taxes other than income have been adjusted for changes in

1 the payroll taxes based on current tax rates and annualized salary figures as discussed
2 above. Gross receipts tax and utility commission tax were also adjusted to account for
3 the proposed increase. Income taxes are computed on taxable income at current rates
4 (35% for federal and 5% for state). AFUDC has been eliminated for ratemaking
5 purposes. Interest Expense was synchronized using the capital structure of the
6 consolidated UI group of companies, consisting of a debt / equity ratio of 59.83% /
7 40.17% and an embedded cost debt of 6.60%. Certain operation and maintenance
8 expenses were increased by the Consumer Price Index for anticipated changes after the
9 test year. Transportation expenses were increased for newly hired employees and
10 associated new vehicles. As well, the Company adjusted purchased water expenses for
11 allowable purchased water costs in six subdivisions that do not receive pass through
12 treatment. Certain expenses relating to fines and penalties have been removed for the
13 purposes of this rate filing. Finally, expenses for maintenance and repair were adjusted to
14 remove recorded amortization of deferred maintenance expenses.

15 **Q. WHAT IS CONTAINED IN SCHEDULE C?**

16 **A.** Schedule C is the Rate Base and Rate of Return Statement. As of December 31,
17 2006, USSC has a rate base of over \$9,700,000. As indicated on page 1 of Schedule C,
18 USSC earned a 1.59% return on rate base during the test year. This is well below the
19 Company's cost of capital.

20 **Q. WHAT PRO FORMA ADJUSTMENTS ARE REFLECTED ON SCHEDULE C?**

21 **A.** Working capital has been calculated at 1/8 of the test year's operating expenses.
22 A pro forma adjustment is made to working capital to match the pro forma operating
23 expenses. A pro forma adjustment has been made to include actual and estimated

capitalized time. A pro forma adjustment has been made to include pro forma plant. Accumulated depreciation has been adjusted to account for general ledger additions, capitalized time additions and pro forma plant additions and retirements.

Q. WHAT RATEMAKING METHODOLOGY DOES THE COMPANY PROPOSE THAT THE COMMISSION EMPLOY IN THIS CASE?

A. The Company proposes that its rates continue to be determined utilizing the rate of return on rate base methodology adopted by the Commission in its last rate proceeding.

Q. DOES RATE OF RETURN ON RATE BASE TREATMENT CONTINUE TO BE APPROPRIATE FOR THE COMPANY?

A. Yes. The Company continues to have a large rate base and needs to earn a rate of return that is sufficient to obtain the necessary equity and debt capital that a larger utility needs for sound operation.

Q. MS. GEORGIEV, DOES THE COMPANY SEEK TO INCLUDE ANY PAYMENTS TO AFFILIATED ENTITIES?

A. Yes. Included in the Company's test year expenses and included in capital expenditures are payments to Bio-Tech, Inc. Bio-Tech is a South Carolina corporation which, like USSC, is a wholly-owned subsidiary of UI. Bio-Tech's business focuses on two primary services, one of which is sludge hauling and disposal and the other of which is water and wastewater plant maintenance, repair and construction. The Company uses both of these services, although the sludge hauling and disposal service comprises the majority of our payments to Bio-Tech. The sludge disposal portion of Bio-Tech's

1 business is regulated by DHEC, which has issued a land application permit for Bio-
2 Tech's disposal site on Old State Road in Lexington County.

3 **Q. DOES BIO-TECH PROVIDE SERVICES ONLY TO THE COMPANY AND**
4 **OTHER WHOLLY-OWNED SUBSIDIARIES OF UI?**

5 **A.** No. Bio-Tech also serves other public utilities and governmentally owned
6 utilities such as municipalities, counties, special purpose districts and public service
7 districts.

8 **Q. HOW ARE BIO-TECH'S CHARGES FOR SERVICES TO THE COMPANY**
9 **DETERMINED?**

10 **A.** Bio-Tech charges the Company the same rates it charges to any other similarly
11 situated customer whether it is affiliated with the Company or not – including
12 governmental customers. The per mile rate and disposal charges paid by USSC is the
13 same as it is for any other customer, whether it is affiliated with the Company or not.
14 Bio-Tech's charges for sludge disposal and water and wastewater plant maintenance,
15 repair and construction are the same for all of its customers, both affiliated and
16 unaffiliated. In other words, Bio-Tech's charges to USSC are at market rates.

17 **Q. WERE THERE ANY BIO-TECH EXPENSES INCLUDED IN THE COMPANY'S**
18 **LAST RATE PROCEEDING?**

19 **A.** Yes. The rates set in the Company's last rate case included expenditures paid to
20 Bio-Tech. This is also true for other UI operating subsidiaries in South Carolina,
21 including Carolina Water Service, Inc. and United Utility Companies, Inc., which have
22 previously received rate relief.

1 **Q. ARE NOT THE EXPENSES ASSOCIATED WITH THE SERVICES PROVIDED**
2 **TO THE COMPANY BY WATER SERVICE CORPORATION AFFILIATE**
3 **PAYMENTS?**

4 **A.** In my opinion they are not because there are no payments involved, only expense
5 allocations. As the Commission is aware from the nearly thirty years worth of rate cases
6 it has considered involving the Company and other affiliates of UI, Water Service
7 Corporation, or WSC, is a wholly owned subsidiary of UI that provides management
8 services to USSC and other operating subsidiaries in the sixteen states where UI has
9 operations. WSC is captive in the sense that its services, which include management,
10 payroll, tax, accounting, procurement services, are only provided to subsidiaries of UI.
11 As the Commission's decisions through the years accepting this arrangement reflect, it is
12 cost efficient since it avoids duplication of these services and functions for each operating
13 subsidiary. This conclusion is tested in each rate case by an audit of the allocations and
14 the records of WSC.

15 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

16 **A.** Yes, it does.